

Message Text

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SUBJECT: UNCTAD: COTTON

FOLLOWING SPECIAL ARTICLE TITLED "15 COMPANIES CONTROL
90 PERCENT OF WORLD'S COTTON TRADE" BY MICHAEL D'ANTONIO
APPEARED IN WASHINGTON POST JULY 6.

BEGIN TEXT: A RECENT UNITED NATIONS STUDY OF THE INTER-
NATIONAL COTTON INDUSTRY HAS REVEALED THAT JUST 15
COMPANIES, EIGHT OF THEM AMERICAN, CONTROL 90 PERCENT OF
WORLD TRADE IN THE COMMODITY.

THE STILL-UNPUBLISHED REPORT ALSO UNVEILS A PREVIOUSLY
SECRET WORLD OF COTTON TRADING THAT INCLUDES PRICE MANIPU-
LATION, TAX EVASION PRACTICES AND CORPORATE MANEUVERS THAT
LANDED ONE U.S. FIRM OUTSIDE THE COTTON EXCHANGE FOR THE
CURRENT YEAR.

ONE HIGH-LEVEL CORPORATE OFFICIAL DISCLOSED THAT HIS FIRM
HAS BRIBED ETHIOPIAN TRADE BOARD MEMBERS TO DELAY COTTON
SALES UNTIL PRICES FELL.

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AFTER REVIEWING THE U.N. CONFERENCE ON TRADE AND DEVELOP-
MENT (UNCTAD) REPORT, A U.S. JUSTICE DEPARTMENT ANTITRUST
INVESTIGATOR SAID THE U.S. IS INVESTIGATING TRADING PRAC-
TICES OF THE "GIANT 15", AS UNCTAD CALLS THEM.

THAT SAME RANKING U.S. OFFICIAL SAID THE GENEVA REPORT

SHOWS THAT THE TRADING "MECHANISM IS BEING OVERUSED (BY THE LARGE TRADERS) AND THE MANY ARE AGAIN DELIVERING THEMSELVES INTO THE HANDS OF THE FEW."

COTTON WITH ALL ITS TEXTILE SPIN-OFFS, IS SECOND ONLY TO OIL IN TERMS OF THE DOLLAR VALUE OF GOODS TRADED, TOTALING UP TO DOLS. 50 BILLION ANNUALLY.

COMMODITY FUTURES TRADING COMMISSION (CFTC) DOCUMENTS CITED IN THE STUDY SHOW HOW ONE GIANT U.S. TRADER (THE PLAINS, TEX., COTTON COOPERATIVE) ATTEMPTED TO "CORNER" OR "SQUEEZE" COTTON FUTURE" TRADING ON THE NEW YORK COTTON EXCHANGE. THE FUTURES ACTIVITIES PROMPTED A CFTC REVIEW AND DECISION BANNING THE PLAINS COOPERATIVE FROM 1977-78 TRADING.

A "SQUEEZE," AS UNCTAD EXPLAINS IT, HAPPENS WHEN ONE OR A GROUP OF TRADERS PURCHASE 90 PERCENT OR MORE OF THE FUTURES CONTRACTS TO BUY COTTON DURING ONE MONTH. THE COOPERATIVE COMBINED THOSE FUTURES PURCHASES OF MUCH OF THE WORLDWIDE DELIVERABLE COTTON TO DRIVE UP BOTH FUTURES AND ACTUAL COTTON PRICES.

THE CFTC CONCLUDED THAT THE TRADER USED ITS POSITION ;TO CAUSE PRICES OF THE MAY 1972 AND JULY 1972 COTTON FUTURES AND SPOT COTTON TO BE ABNORMALLY AND ARTIFICIALLY HIGH.
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THE COMPANY DID NOT CONTEST A JULY 17, 1977 CFTC RULING PROHIBITING IT FROM THE TRADING FLOOR FOR ONE YEAR.

WHILE NO REPRESENTATIVE OF THE GIANT 15 WOULD SPEAK ON THE RECORD ABOUT HIS FIRM'S ACTIVITIES, ONE CORPORATE OFFICER DID SAY HIS COMPANY HAS BRIBED ETHIOPIAN TRADE DIRECTORS TO DELAY SELLING THAT NATION'S COTTON CROP. THE DELAY LASTED UNTIL PRICES FELL AND THE TRADER NETTED AN INCREASED PROFIT. THE SAME TRADER SAID HIS CORPORATION HAS BEEN GRANTED A DOLS. 100 MILLION OVERDRAFT ACCOUNT BY A MAJOR TRANSNATIONAL BANK. HE SAID THAT WHILE THE COMPANY, NOT AMERICAN, HAS ENOUGH CAPITAL TO CARRY OUT NORMAL TRANSACTIONS, THE MONEY IS AVAILABLE TO FINANCE LARGE DEALS.

COTTON IS THE MAINSTAY OF THE NATIONAL ECONOMIES OF COUNTRIES SUCH AS CHAD, EGYPT, SUDAN, NICARAGUA AND OTHERS. MORE THAN 250 MILLION PEOPLE DIRECTLY DEPEND ON THE CROP FOR THEIR LIVELIHOOD, SAID UNCTAD. AND 15 INDUSTRY GIANTS FORM AN ALMOST OPEC-LIKE GROUP COMPOSED OF EIGHT AMERICAN, TWO EUROPEAN AND FIVE JAPANESE FIRMS

THAT HANDLE 90 PERCENT OF COTTON WORLDWIDE.

THE SIX-MONTH UNCTAD INVESTIGATION SHOWS THE GIANT 15 NOT ONLY CONTROL ACTUAL COTTON GROWING AND PROCESSING BUT THAT THEY HAVE PENETRATED THE FUTURES MARKET ENOUGH TO EFFECTIVELY MANIPULATE FUTURES PRICES AND THEREFORE THE ACTUAL INTERNATIONAL PRICE OF RAW COTTON AND COTTON PRODUCTS.

UNCTAD SAYS THAT BY EMPLOYING THE SAME KINDS OF "SQUEEZES" OR "CORNERS," THE GIANT 15 FREQUENTLY MANIPULATE THE MARKET THE WAY THE PLAINS COOPERATIVE DID.

IN ANOTHER CASE DRAWN FROM CFTC FILES, SWITZERLAND'S VOLKART, NUMBER TWO ON THE SCALE OF COTTON TRADERS, AC-
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QUIRED 12,000 OF 13,400 AVAILABLE FUTURES CONTRACTS TO BUY COTTON IN OCTOBER 1958. VOLKART ALSO HELD WELL OVER HALF THE AVAILABLE DELIVERABLE COTTON IN THE WORLD.

BECAUSE OTHER TRADERS HELD AN EQUAL AMOUNT OF CONTRACTS TO SELL TO VOLKART IN OCTOBER, OR OBLIGATIONS TO OFFSET THEIR "SELL" CONTRACTS BY OBTAINING "BUY" CONTRACTS, VOLKART COULD PUSH UP THE PRICE OF OCTOBER BUY CONTRACTS. FEWER THAN TWO PERCENT OF CONTRACTS ON ANY FUTURES MARKET ARE SETTLED WITH THE ACTUAL DELIVERY OF COMMODITIES BUT IF A TRADER WANTED TO BALANCE OUT WITH REAL COTTON HE WOULD HAVE BEEN HARD PRESSED TO FIND ANY IN THAT VOLKART-DOMINATED MARKET.

AFTER READING THE UNCTAD STUDY, A JUSTICE DEPARTMENT LAWYER CALLED THE COTTON FUTURES MARKET "VERY THIN INDEED." EXPLAINING THAT HIS DEPARTMENT IS LOOKING INTO LARGE COTTON TRADERS' ACTIVITIES, HE SAID "THE FARMERS, WAREHOUSEMEN, SPINNERS, WEAVERS AND SEMPSTERS ARE ALL DEPENDING ON THE FUTURES PRICE TO TELL THEM WHAT TO ASK FOR COTTON AND COTTON GOODS.

IT IS FAIRLY CLEAR THAT THE MECHANISM IS BEING OVERUSED AND THAT THE MANY ARE AGAIN DELIVERING THEMSELVES INTO THE HANDS OF THE FEW, NONE OF THE LATTER OF WHICH HAVE SWORN A HIPPOCRATIC OATH,, HE CONCLUDED.

THE GENEVA REPORT ON COTTON ADDS THAT BUYING AND SELLING ON FUTURES EXCHANGES "IS OFTEN REFERRED TO AS THE CLOSEST APPROXIMATION TO THE FREE INTERPLAY OF SUPPLY AND DEMAND IN MODERN MARKETS. A MORE CRITICAL ANALYSIS PROVES OTHERWISE." THE REPORT POINTS OUT THAT SQUEEZES ALSO CAN BE A RESULT OF "COLLUSIVE ACTION" AMONG A NUMBER OF TRADERS.
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YET THE RESEARCHERS DOCUMENT ONE INSTANCE WHEN A SQUEEZE FAILED.

WHILE ONE TRADING GIANT, THE U.S.'S HOHENBERG, WAS BUYING UP MOST OF THE CONTRACTS TO SELL, ANOTHER WAS SLOWLY ACQUIRING MOST OF THE "BUY" CONTRACTS FOR THE SAME MONTH. THE FIRST COMPANY THREATENED THE SECOND WITH MASSIVE DELIVERIES OF INFERIOR COTTON WHEN THE PARALLEL SCHEMES WERE DISCOVERED. WHEN THE SECOND COMPANY STOOD FIRM THE THREAT WAS WITHDRAWN AND PRICES WERE NOT AFFECTED BY THE PAINSTAKING INDUSTRIAL GAMESMANSHIP.

WHILE COTTON STARTS IN PLACES AS FAR FLUNG FROM MANHATTEN AS CHAD AND PAKISTAN, THE ACTUAL PRICE OF THE BALES IS ADJUSTED FROM THE NEW YORK COTTON EXCHANGE QUOTATIONS. EVEN THE GOVERNMENTS WHOSE COTTON IS CONTROLLED BY THE BIG 15 COMPANIES DON'T KNOW WHO THEY ALL ARE OR HOW MUCH BUSINESS THEY DO. BUT THEY CAN'T SELL COTTON WITHOUT THEM, SAYS THE REPORT.

THE MAJORITY OF THE GIANT 15 ARE PRIVATE COMPANIES IN NO WAY PUBLICLY ACCOUNTABLE. THE FEW PUBLIC CORPORATIONS ARE COMPELLED BY LAW TO DISCLOSE A BALANCE SHEET. HOWEVER, SAYS UNCTAD, THE RUDIMENTARY DATA IS PRESENTED "IN WAYS CONTRIVED TO CONCEAL RATHER THAN REVEAL" THEIR OPERATIONS. BRITAIN'S BOWATER, PARENT COMPANY OF RALLI BROTHERS WHICH LEADS THE 15, HANDLING UP TO 2 MILLION BALES ANNUALLY, GIVES AN AGGREGATE SALES FIGURE FOR INTERNATIONAL TRADING AND TRANSPORTATION. THERE ARE NO CLUES TO THE FIRM'S COTTON DEALS IN DOLLARS AND CENTS.

CRUCIAL TO AN UNDERSTANDING OF COMMODITY MARKETS, SAYS THE STUDY, IS THAT MOST OF THE COTTON GIANTS ARE MAJOR GLOBAL MARKETEERS IN OTHER PRODUCTS, VOLKART IN COFFEE, COOK, CARGILL/HOHENBERG AND BUNGE OF THE U.S. IN GRAINS AND SOYBEANS AND RALLI BROTHERS IN TIMBER, COFFEE, GRAIN, RUBBER, TEA AND METALS.

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GROWING DOMINANT IN THE POST WORLD-WAR-II ERA, MOST OF THE GIANT TRADERS TURNED TO FUTURES TRADING TO INSURE AGAINST RAPID UPWARD OR DOWNWARD SWINGS IN COTTON PRICES. FUTURES TRADERS CONTRACT TO BUY AND RECEIVE, OR SELL AND DELIVER COTTON FOR A SPECIFIED PRICE ON A SET DATE. ONLY A SMALL PORTION OF ALL CONTRACTS ARE EVER SETTLED IN REAL COTTON.

TRADERS SIMPLY BALANCE THEIR COMMITMENTS TO SELL WITH
COMMITMENTS TO BUY.

A FUTURES CONTRACT EQUALS 100 BALES OF COTTON, AND IN
1975-76 ALONE ALMOST DOLS. 25 BILLION IN FUTURES WAS
TRADED. THE NEW YORK COTTON EXCHANGE IS ONE OF JUST 40
COMMODITY FUTURES EXCHANGES IN THE U.S. WITH OPERATIONS
NOW TOTALING MORE THAN DOLS. 1 TRILLION ANNUALLY.

BECAUSE THE ACTUAL MARKET PRICE OF RAW COTTON AND COTTON
GOODS IS USUALLY ADJUSTED FROM THE FUTURES PRICES, THE
MOVEMENTS OF THE GIANTS WITHIN THE FUTURES GAME OFTEN
DICTATE THE FLUCTUATING PRICES OF THEIR OWN AND ENTIRE
NATIONS' RAW GOODS, THE U.N. STUDY CONCLUDES. END TEXT.
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